The Real Estate TRENDS

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

REAL ESTATE AND MORTGAGE ACTIVITY

Although still moving at a brisk rate, both real estate and mortgage activity have slowed during the past 4 months. This is certainly not to be viewed with alarm because both could continue their slow decline for some time before dropping below boom levels.

While we expect both types of activity to remain high, at least into 1956, logic seems to indicate that real estate activity is more susceptible to a drop than is mortgage activity. There has been an enormous number of real estate transfers since 1946. A good guess would be between 42 and 45 million sales, the vast majority of which have been single-family homes. This record-breaking volume of sales has removed a great deal of the need to buy homes. This is particularly true in view of the falling rate of new family formation. Families are still buying homes at a brisk rate, but are doing so largely because of additional space requirements and the desire to "upgrade" their living quarters. The fact that there is now an abundance of housing, insofar as numbers are concerned, and that rental units are becoming more available makes the purchase of a home more deferrable than at any time in the postwar period.

This does not mean that a serious drop in the real estate market is imminent. In our opinion real estate activity is going to stay good, except in certain areas now afflicted with overbuilding, for the rest of this year and at least part of 1956. We may be extremely fortunate and escape any major readjustment of the real estate market for several more years. On the other hand, the market is more susceptible to a decline than at any time during the postwar period, and whether we will be able to move from one boom to a bigger one with no more discomfort than we have had so far remains to be seen.

For a short time it is possible for mortgage activity to be strong and steady, even though real estate activity appears to be faltering. That is somewhat similar to the present situation. In the early days of the boom, real estate activity rose much faster and higher than did mortgage activity. In the last few years, and particularly since 1954, a given amount of real estate activity has required

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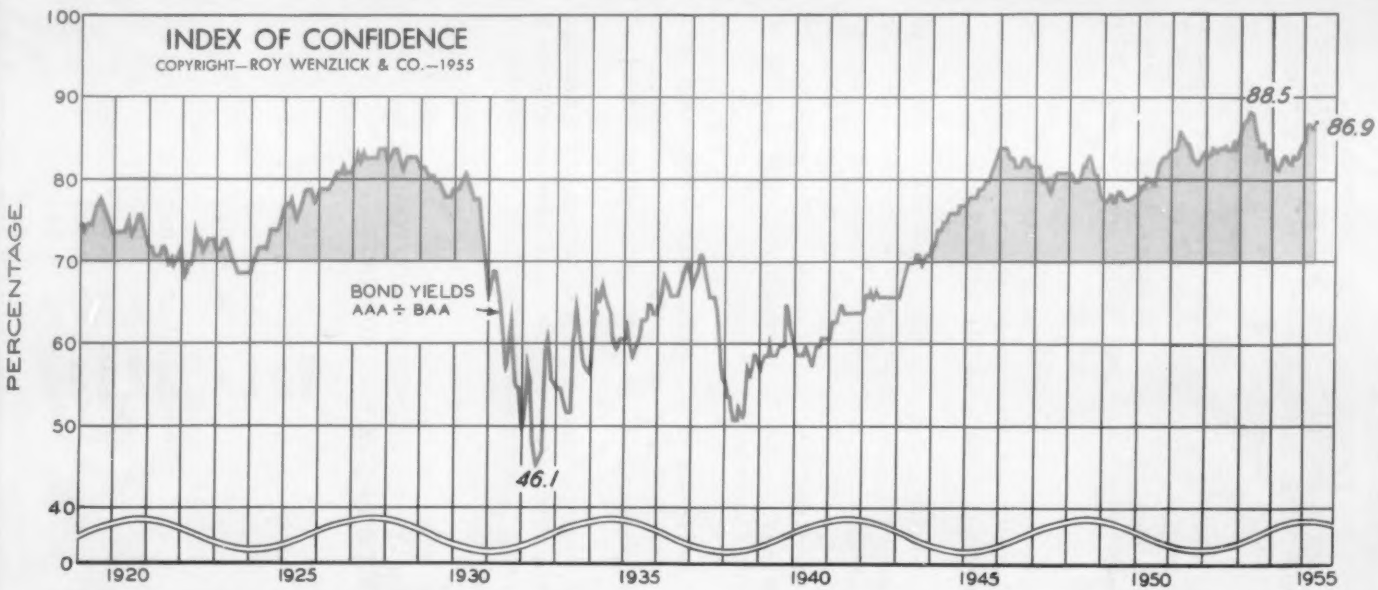

One of the better-known indexes is the one shown above. It was developed a number of years ago by the late General Leonard P. Ayres, outstanding economist and statistician, who called it an "index of business confidence." The index is derived by dividing the yields of Aaa bonds by the yields of Baa bonds. Therefore, it is basically a percentage relationship between the yield of Baa 's and the yield of Aaa 's. As confidence rises, investors are willing to take a lower return on Baa (more speculative) bonds. Therefore, the yield on them begins to decline as investors bid up their prices. As the prices on Baa 's rise, their yield comes closer into line with the yield of the higher grade Aaa. When confidence in the future begins to falter, investors are more wary of the more speculative bonds and demand a higher yield. This change brings about a wider difference between the yield of Baa 's and the more stable Aaa 's, and is reflected by a decline in the percentage relationship between them, or a decline in the index. During the postwar period, confidence, as indicated by this index, has shown several dips. The latest one was the dip that began in May 1953 and ended in April 1954. In 1955 the index has shown a slow but steady rise and now stands at 86.9, less than 2 points below the all-time high of 88.5 (April 1953).

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much heavier financing than formerly. Today even a bigger percentage of home sales require financing at higher prices and, for the most part, at higher loan-to-value ratios. This is why we believe that mortgage activity in 1955 will set an alltime record, even though real estate activity is far below its peak.

Statistically, our real estate activity index is slightly lower than it was at the beginning of the year. It has dropped from 19.0 points above normal to 16.7 points above normal. While this is a decline, it is a slow one, and the level of activity of 16.7 is still well above that of a year ago when the index reading was only 2 or 3 points above normal.

Although mortgage activity has dropped since January from 179.7 to 167.4, this, too, is a relatively small decline, and the index is still far above the same period in 1954, when the activity level ranged from 144.9 to 150.0.

INTEREST RATES

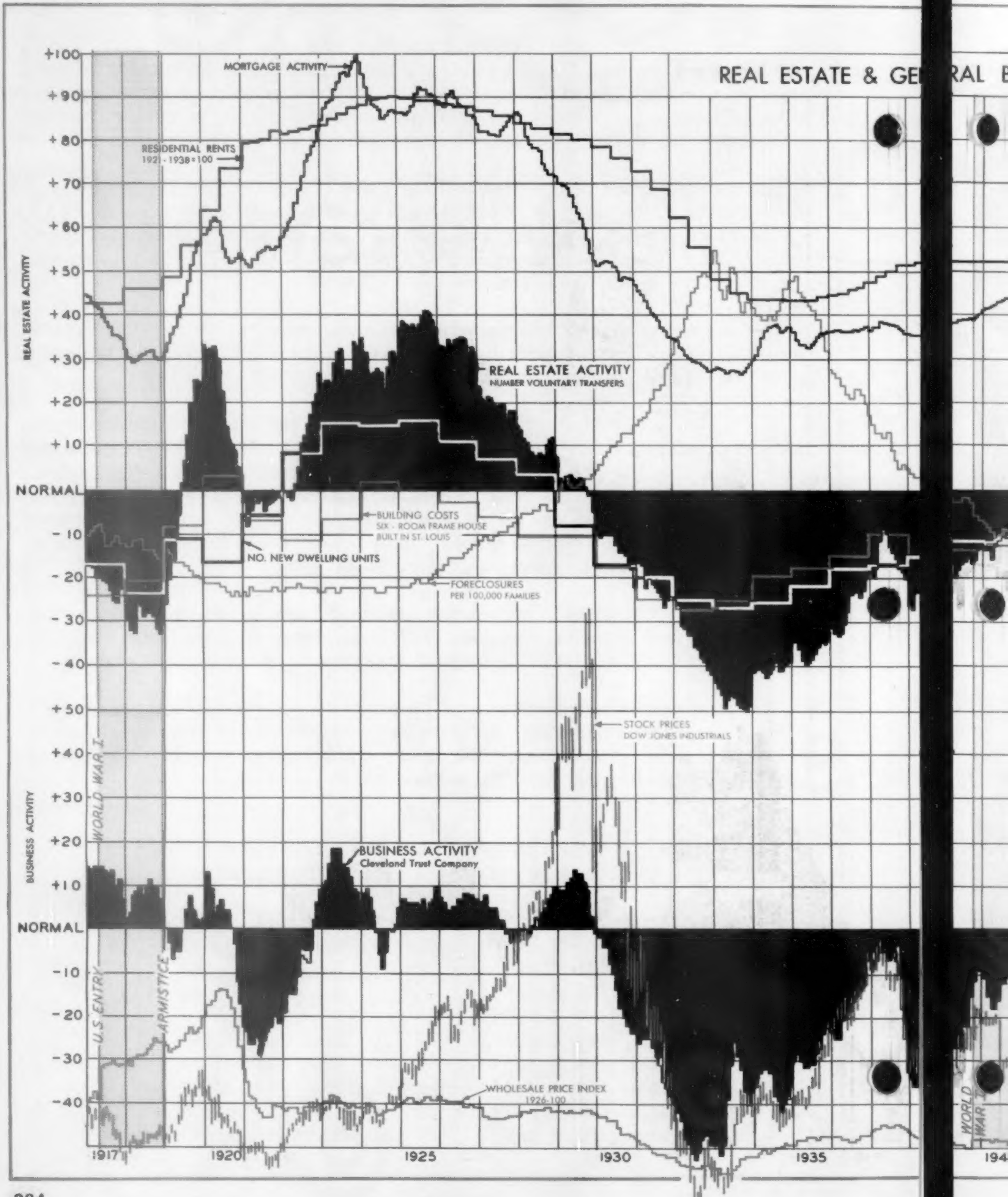
If one is to judge by the average recorded mortgage rates in 12 major cities, interest rates are falling instead of rising. This is rather astonishing since one of the most widely voiced opinions has been that mortgage interest rates were certain to go up. In our April mortgage survey, opinion ran almost 2-1 in anticipation of a tighter money supply. This would evidently indicate at least the expectation of higher rates later in the year.

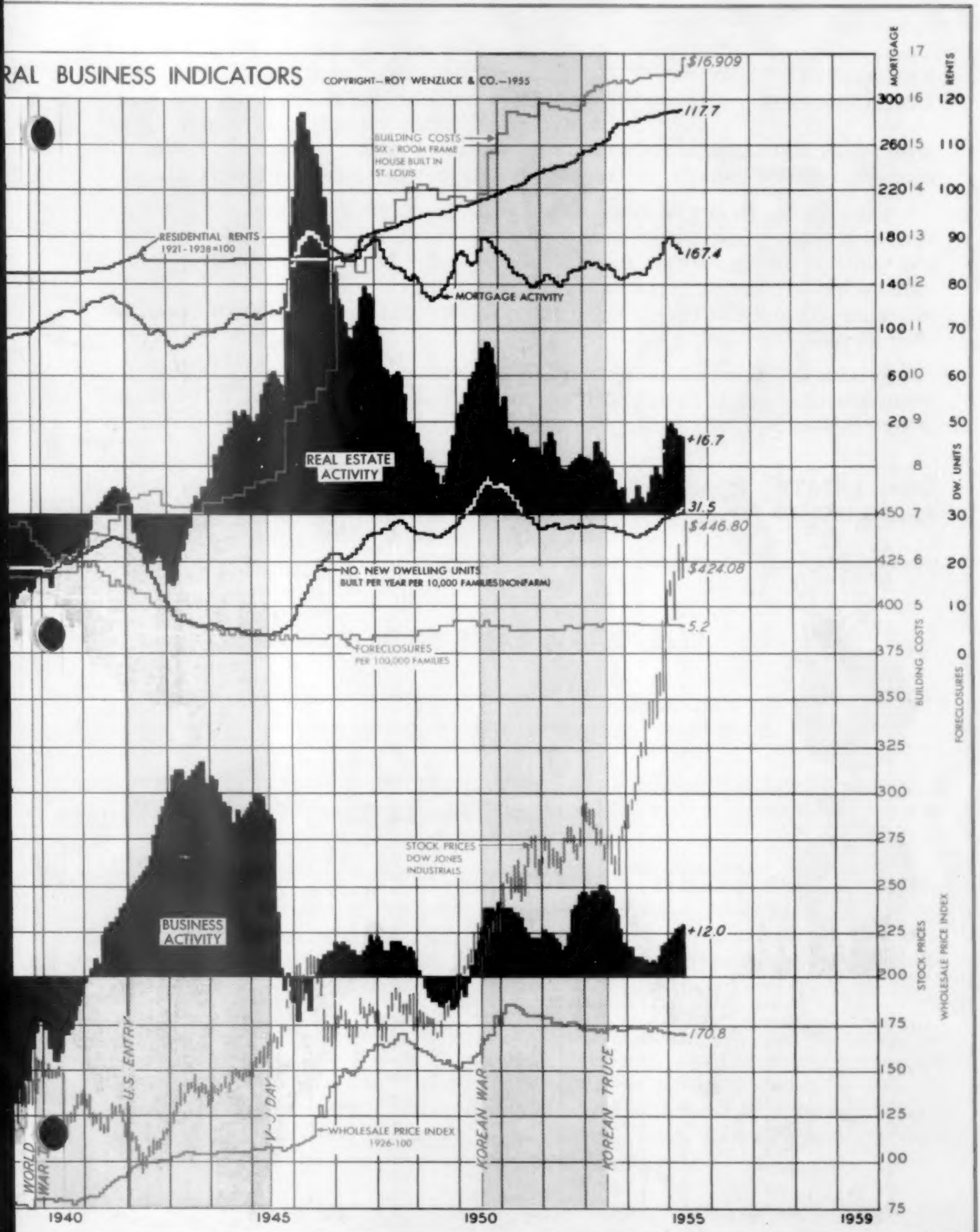
Demands by all types of borrowers are much heavier than they were a year ago, and the rate of saving has been declining. Strictly on the basis of supply and demand, there should be an upward pressure on the price of borrowing.

We must remember, however, that the interest rates shown below are average rates of recorded mortgages. Since the rates on these loans were usually set 2 or 3 months prior to their recording, there would be that much of a time lag in any rise indicated by the following index.

AVERAGE INTEREST RATE OF RECORDED MORTGAGES
IN 12 MAJOR CITIES OF THE UNITED STATES

Mar.	'53	5.007%	Sept.	'54	5.107%
			Oct.	'54	5.092
Jan.	'54	5.187	Nov.	'54	5.063
Feb.	'54	5.240	Dec.	'54	5.033
Mar.	'54	5.197			
Apr.	'54	5.173	Jan.	'55	5.045
May	'54	5.151	Feb.	'55	5.070
June	'54	5.114	Mar.	'55	5.087
July	'54	5.082	Apr.	'55	5.079
Aug.	'54	5.082	May	'55	5.044


REAL ESTATE & GE RAL B
MORTGAGE ACTIVITY
RESIDENTIAL RENTS 1921-1938=100
REAL ESTATE ACTIVITY
NUMBER VOLUNTARY TRANSFERS
BUILDING COSTS
SIX - ROOM FRAME HOUSE
BUILT IN ST. LOUIS
NO. NEW DWELLING UNITS
FORECLOSURES
PER 100,000 FAMILIES
STOCK PRICES
DOW JONES INDUSTRIALS
BUSINESS ACTIVITY
Cleveland Trust Company
WHOLESALE PRICE INDEX
1926-100
REAL ESTATE ACTIVITY
BUSINESS ACTIVITY
NORMAL
NORMAL
U.S. ENTRY
WORLD WAR I
ARMISTICE
WORLD WAR
1917
1920
1925
1930
1935
194



RAL BUSINESS INDICATORS
COPYRIGHT—ROY WENZLICK & CO.—1955
BUILDING COSTS SIX-ROOM FRAME HOUSE BUILT IN ST. LOUIS
RESIDENTIAL RENTS 1921-1938=100
MORTGAGE ACTIVITY
REAL ESTATE ACTIVITY
NO. NEW DWELLING UNITS BUILT PER YEAR PER 10,000 FAMILIES (NONFARM)
FORECLOSURES PER 100,000 FAMILIES
STOCK PRICES DOW JONES INDUSTRIALS
BUSINESS ACTIVITY
WHOLESALE PRICE INDEX 1926-100
WORLD WAR
U.S. ENTRY
V-J DAY
KOREAN WAR
KOREAN TRUCE
$16,909
117.7
167.4
+16.7
31.5
$446.80
$424.08
5.2
+12.0
170.8
1940
1945
1950
1955
1959
MORTGAGE
RENTS
DW. UNITS
BUILDING COSTS
FORECLOSURES
STOCK PRICES
WHOLESALE PRICE INDEX

RESIDENTIAL CONSTRUCTION

If the year customarily ended on May 31 instead of December 31, the year ending May 31, 1955, would have been the record year for new residential construction volume. Last month's volume of 132,000 starts brought the 12-month period ending with May to 1,320,900 nonfarm residential units, the record for a 12-month period ending May 31.

Through the first 5 months of this year, nonfarm residential starts have totaled 553,500 units, far ahead of the same period of any other year except 1950, and only $1\frac{1}{2}$% off the record-breaking pace of that year. As high as the May 1955 volume was, however, it was a mild disappointment in that it was almost 12% below the alltime high of 149,100 in May 1950, and that the seasonal gain was less than normal.

Private nonfarm residential starts through the first 5 months of this year are running around 100,000 more than for the same period in any of the last 4 years. They reached 547,300, or only 1% below the same 5-month total of 1950 (553,100).

REAL ESTATE SALES PRICES

For the past few years, month-to-month changes in real estate sales prices have been very small. In May, this was likewise the case. The rise was only 0.3% above the April level, and 0.3% above a year ago. Further rises are in prospect.

REAL ESTATE SALES PRICE COMPARISONS

With preceding month

+0.3%

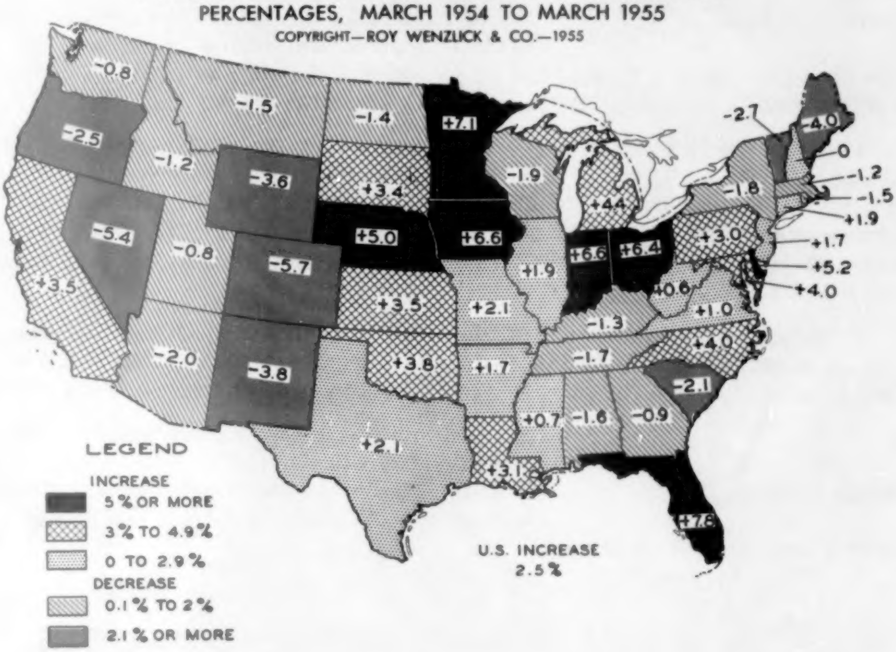
With same month preceding year

+0.3%

Date	Trend in selling price	Probable selling price of a house that sold for $12,000 in 1947-49 period	Date	Trend in selling price	Probable selling price of a house that sold for $12,000 in 1947-49 period
1947-49	100.0	$12,000	Oct. '48	104.5	$12,540
1913	40.1	4,812	Mar. '52	120.9	14,510
1918	34.1	4,092	Oct. '52	119.4	14,330
Mar. '29	73.9	8,868	Jan. '53	118.6	14,230
May '32	34.8	4,176	May '53	117.6	14,110
Apr. '34	44.8	5,376	Oct. '53	119.7	14,360
July '37	40.1	4,812	Jan. '54	120.9	14,510
Apr. '38	42.8	5,136	May '54	122.6	14,710
Mar. '41	40.1	4,812	Oct. '54	122.3	14,680
			Jan. '55	122.9	14,750
			Apr. '55	122.6	14,710
			May '55	123.0*	14,760*

*Preliminary.

CHANGES IN DOLLAR VALUE OF FARM LANDS
PERCENTAGES, MARCH 1954 TO MARCH 1955



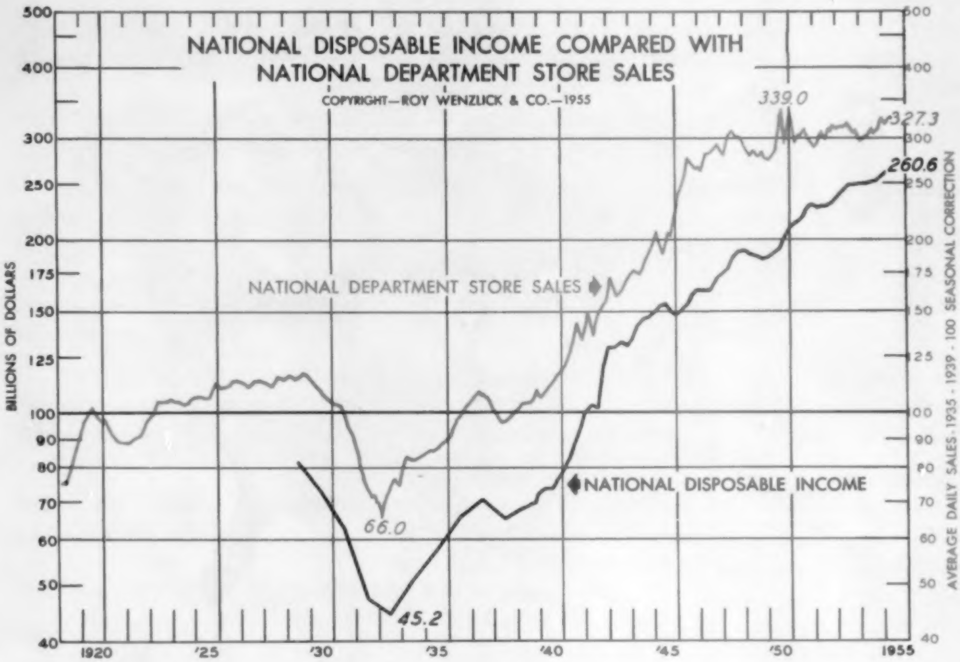
FARM LAND VALUES ON THE RISE

FARM land values, which stopped their slow decline last July, continued to show improvement through March 1955. The outlook is for continued slow improvement over most of the country.

Unfortunately, not all States participated in the rise. Some of them, notably Colorado, New Mexico, Wyoming and Nevada, saw a substantial decline in the average value per acre of their farm lands. Other declines of less severity were centered in other western meat-producing States, and in the cotton-tobacco South and the dairy-product States of Wisconsin and New York.

For the Nation as a whole, however, the trend has been upward, rising approximately $2\frac{1}{2}\%$ from March 1954 to 1955. The map above shows the percentage changes in farm land values that have occurred on a State-by-State basis in the March 1954-March 1955 period. You will notice that the biggest increases have taken place in Florida, Minnesota, Iowa, Indiana, Ohio, Delaware and Nebraska. Most of these States are predominantly agricultural.

In those States where declines have occurred, the chief reasons have been the



drought of the past several years, lower meat prices, reduced tobacco allotments, and the decline in dairy products.

Most informed opinion favors a rise in land values over a good part of the country. Exceptions were noted in those States where lower tobacco allotments, reduced wheat crops, and lower prices for poultry and dairy products were expected to have an adverse effect on farm income.

DEPARTMENT STORE SALES AND NATIONAL INCOME

WITH the exception of a few brief and minor setbacks, both department store sales and disposable income have enjoyed a long, steady 22-year rise. Some part of the increases in both indexes has been the result of the inflation that has led to several wage-price spirals, but by far the greatest part of the rise has stemmed from higher productivity on the one hand, and greater unit sales on the other.

Although not always directly comparable, department store sales usually indicate the course of other retail sales rather closely. This is a good point to keep in mind when drawing leases on retail space.